

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 EUR-12 EA-06 ISO-00 COME-00 INT-05 GSA-01

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FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 134

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY PRETORIA

AMEMBASSY SINGAPORE

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E.O. 11652: N/A

TAGS: EINV EMIN MY

SUBJ: PERNAS BECOMES PART OWNER OF HAW PAR BROS.

1. IN ONE OF MOST FINANCIALLY ASTUTE ARRANGEMENTS SINCE BROOKE FAMILY BECAME RAJAHS IN SARAWAK, TWO ENGLISH COMPANIES WITH SUBSTANTIAL TIN HOLDINGS IN MALAYSIA AND ELSEWHERE HAVE BECOME JOINT VENTURE PARTNERS WITH AN AGENCY OF MALAYSIAN GOVERNMENT. DEAL ALSO ALLOWS THIS AGENCY (PERNAS SECURITIES) TO BECOME MAJOR STOCKHOLDER IN ONE OF TWO BRITISH COMPANIES REFERRED TO (HAW PAR BROTHERS). OTHER BRITISH COMPANY INVOLVED IS CHARTER CONSOLIDATED GROUP, WHICH IS 36 PERCENT OWNED BY SOUTH AFRICAN COMPANY (ANGLO AMERICAN CORP.).

2. NET RESULT OF DEAL IS THAT CHARTER CONSOLIDATED, HAW PAR AND PERNAS, THROUGH WEB OF INTERLOCKING
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DIRECTORATES NOW EFFECTIVELY CONTROL MAJORITY OF

LARGE-SCALE TIN MINING IN MALAYSIA. THIS PRIMARILY DUE TO HAW PAR OBTAINING MAJORITY OWNERSHIP OF LONDON TIN CORP., COMPANY WITH SUBSTANTIAL TIN HOLDINGS IN MALAYSIA, THAILAND AND NIGERIA. ADVANTAGE TO GOM IS THAT PERNAS BECOMES LARGEST STOCKHOLDER IN HAW PAR, AND CAN POINT OUT TO DOMESTIC PUBLIC OPINION THAT GOVERNMENT ACTIVELY ATTEMPTING TO GAIN CONTROL OF TIN MINING SECTOR. GOM CAN ALSO STATE THAT DEAL CONSUMMATED IN CORDIAL AND BUSINESS-LIKE FASHION. HAW PAR'S BRITISH MANAGEMENT ALSO WELL PLEASED BECAUSE OF FORMAL AGREEMENT WHICH PROTECTS THEIR MANAGEMENT PERSONNEL ACT RIGHTS. IN THIS CONNECTION, TENGKU RAZALEIGH HAMZAH, CHAIRMAN OF PERNAS SECURITIES WILL BECOME CHAIRMAN OF HAW PAR BROS. RAZALEIGH IS ALSO LEADING MALAY POLITICIAN AND CHAIRMAN OF PETRONAS, MALAYSIAN GOVERNMENT OIL AGENCY PRESENTLY LOCKED IN MAJOR STRUGGLE WITH WESTERN OIL COMPANIES. GIVEN OTHER CLAIMS ON HIS TIME, IT UNLIKELY HE WILL PLAY ACTIVE MANAGEMENT ROLE IN HAW PAR. PRESENT HAW PAR CHAIRMAN WILL BECOME DEPUTY CHAIRMAN AND WILL BE IN CHARGE OF MANAGEMENT POLICY. BRITISH MANAGING DIRECTOR WILL STAY ON IN SAME ROLE AS BEFORE.

3. MECHANICS OF DEAL AS FOLLOW. PERNAS, THROUGH WHOLLY OWNED SUBSIDIARY TRADEWINDS, WILL SELL TO HAW PAR THEIR INTEREST IN LONDON TIN (20 PERCENT), ISLAND AND PENINSULAR DEVELOPMENT BERHAD (19 PERCENT) AND SIME DARBY HOLDINGS (10 PERCENT) -- PLUS OTHER QUOTED SECURITIES TO VALUE OF M DOLS 12 MILLION. IN RETURN, HAW PAR WILL ISSUE TO PERNAS 70.4 MILLION NEW SHARES -- MAKING UP ABOUT 40 PERCENT OF ISSUED CAPITAL (LARGEST SINGLE HOLDING IN COMPANY). CHARTER CONSOLIDATED HOLDINGS IN HAW PAR WILL DECLINE FROM THE PRESENT 13 PERCENT TO ABOUT 8 PERCENT BUT WILL RETAIN SEAT ON HAW PAR BOARD.

4. MOST SIGNIFICANT RESULT OF ALL OF THIS IS THAT HAW PAR WILL NOW CONTROL 51 PERCENT OF LONDON TIN CORPORATION, REPORTEDLY WORLD'S LARGEST TIN HOLDING LIMITED OFFICIAL USE

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COMPANY WITH SUBSTANTIAL INTERESTS IN MALAYSIA, THAILAND AND NIGERIA. IN SAME FASHION, HAW PAR WILL ALSO HAVE 51 PERCENT OF ISLAND AND PENINSULAR BERHAD, A HOLDING COMPANY WITH LARGE TIN, OIL PALM, LAND DEVELOPMENT AND FINANCIAL INTERESTS IN MALAYSIA.

5. THUS, HAR PAR (ALONG WITH PERNAS AND CHARTER CONSOLIDATED) CONTROLS OR HAS SUBSTANTIAL INTERESTS

IN FOLLOWING MALAYSIAN TIN MINING COMPANIES:

KAMUNTING TIN, MALAYSIAN TIN, SOUTHERN MALAYAN TIN,
SOUTHERN KINTA CONSOLIDATED, AUSTRAL ALMAGAMATED,
BERJUNTAI TIN, KAMPONG LANJUT TIN, KRAMAT TIN,
KUALA KWDPAR TIN FIELDS, LOWER PERAK TIN, AUSTRAL
MALAY TIN, TALAM MINES, AND TONGKAH HARBOR TIN.

6. IN ADDITION, CHARTER CONSOLIDATED IS THE LARGEST
EFFECTIVE STOCKHOLDER IN SEVERAL REMAINING LARGE
TIN MINES IN MALAYSIA, I.E., ANGLO-ORIENTAL, TRONOH
MINES, AYER HITAM, LTD., SUNGEI BESI MINES, LTD., AND
ASSOCIATED MINES. COMPANY ALSO HOLDS MAJORITY
INTEREST IN JOINT TIN MINING VENTURES WITH THE STATE
GOVERNMENTS OF SELANGOR AND PERAK. LARGEST OWNER-
SHIP BLOCK IN CHARTER CONSOLIDATED HELD BY SOUTH
AFRICAN COMPANY (ANGLO-AMERICAN CORPORATION) WHICH
OWNS 36 PERCENT OF COMPANY. REPORTEDLY, ANGLO-
AMERICAN IS PROVIDING FINANCING FOR HAW PAR PUR-
CHASES OF PERNAS HOLDINGS.

7. TRANSACTION REPORTEDLY CAME ABOUT BECAUSE
MANAGEMENTS OF HAW PAR AND CHARTER CONSULTANTS IN
LONDON BECAME INCREASINGLY CONCERNED WITH PRESSURES
BEING APPLIED ON THEM BY GOM TO MALAYANIZE THEIR
HOLDINGS. THIS SCHEME IS THE OUTCOME OF THEIR
SEARCH FOR A MEANS TO BOTH SATISFY GOM AND TO MAINTAIN
CONTROL OVER HIGHLY PROFITABLE TIN OPERATIONS IN
MALAYSIA. WHILE ENGLISH PARTNERS EXPECT SOME
TROUBLE FROM BRITISH AUTHORITIES IN TRANSFERRING
SUBSTANTIAL TAX BASE FROM U.K. TO MALAYSIA, THEY
ARE CONVINCED THAT THIS IS RIGHT STEP TO TAKE
POLITICALLY WITH GOM. THEY ARE QUITE SATISFIED
WITH CONTRACT THEY GOT FROM PERNAS, ESPECIALLY
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REGARDING MANAGEMENT CONTROL, PROTECTION OF
EXPATRIATE FINANCIAL INTERESTS AND CONTINUED
EMPLOYMENT OF EXPATRIATE MANAGEMENT.

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8. SUBSEQUENT TO ANNOUNCEMENT OF DEAL DESCRIBED ABOVE, HAW PAR AND PERNAS HAVE ENCOUNTERED DIFFICULTIES BOTH WITH SINGAPORE SECURITIES INDUSTRY COUNCIL AND LONDON CITY TAKEOVER AND MERGER PANEL. ACCORDING TO LOCAL PRESS REPORTS, BOTH BODIES HAVE ESSENTIALLY RULED THAT HAW PAR AND PERNAS MAY HAVE TO OFFER TO BUY OUT THE REMAINING STOCKHOLDERS IN HAW PAR AND LONDON TIN AT HIGHEST PRICE IN LAST YEAR. IN THE CASE OF LONDON TIN, HAW PAR WOULD REPORTEDLY HAVE TO COME UP WITH MALAYSIAN DOLLARS 110 MILLION TO OBTAIN OUTSTANDING SHARES. WHILE THESE PROBLEMS NOT ENTIRELY UNEXPECTED, SUBSTANTIAL CAPITAL REQUIRED MAY SLOW DOWN, IF NOT PERMANENTLY DERAIL, MERGER PLANS.

9. COMMENT: IN SPITE OF PROBLEMS MENTIONED ABOVE AND UNLIKE THE PRESENT SITUATION WITH THE OIL LIMITED OFFICIAL USE

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COMPANIES, ALL PARTIES TO THE HAW PAR DEAL APPEAR TO BE SATISFIED. THE GOM BECAUSE IT ACHIEVES AN AMICABLE SOLUTION TO THE TROUBLING POLITICAL QUESTION OF CONTROL OF MALAYSIA'S TIN RESOURCES. TENGKU RAZALEIGH BECAUSE, ON THE VERGE OF CRUCIAL ELECTIONS FOR THE VICE PRESIDENCY OF UNITED MALAY

NATIONAL ORGANIZATION (UMNO) FOR WHICH HE LEADING CANDIDATE, HE AGAIN OBTAINS LIMELIGHT IN HIS FAVORITE ROLE AS DEFENDER OF MALAYSIA'S NATIONAL RESOURCES, A POSITION HE HAD EARLIER STAKED OUT FOR HIMSELF VIS-A-VIS OIL COMPANIES. LASTLY, BRITISH PARTIES ARE IMMENSELY SATISFIED BECAUSE THEY HAVE: A) REMOVED GOM PRESSURE TO FIND SOME METHOD, PROBABLY DETRIMENTAL TO THEIR INTERESTS, TO INCREASE MALAYSIAN OWNERSHIP; B) THEY RETAIN MANAGEMENT CONTROL; C) THEY GAIN POLITICALLY POWERFUL CHAIRMAN (RAZALEIGH) WHO NONETHELESS CAN BE EXPECTED TO INTERFERE SLIGHTLY, IF AT ALL IN COMPANIES' MANAGEMENT; AND D) IT ENABLES THEM TO "TIDY UP" REMARKABLY COMPLICATED OWNERSHIP OF TIN COMPANIES IN MALAYSIA.

10. SOME QUESTION REMAINS AS TO HOW LONG PERNAS (AND RAZALEIGH) WILL BE WILLING TO ALLOW BRITISH MANAGEMENT TO FREELY EXERCISE CONTROL OF HAW PAR. COMPANIES CONCERNED APPEAR QUITE OPTIMISTIC IN THIS REGARD AND ONLY TIME WILL GIVE INDICATION IF THEY WHISTLING IN DARK.
UNDERHILL

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